

# Washington State Economic & Revenue Outlook

Presented to  
Governor's Cabinet Retreat

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Olympia, WA



**WASHINGTON STATE**  
**ECONOMIC AND REVENUE FORECAST COUNCIL**



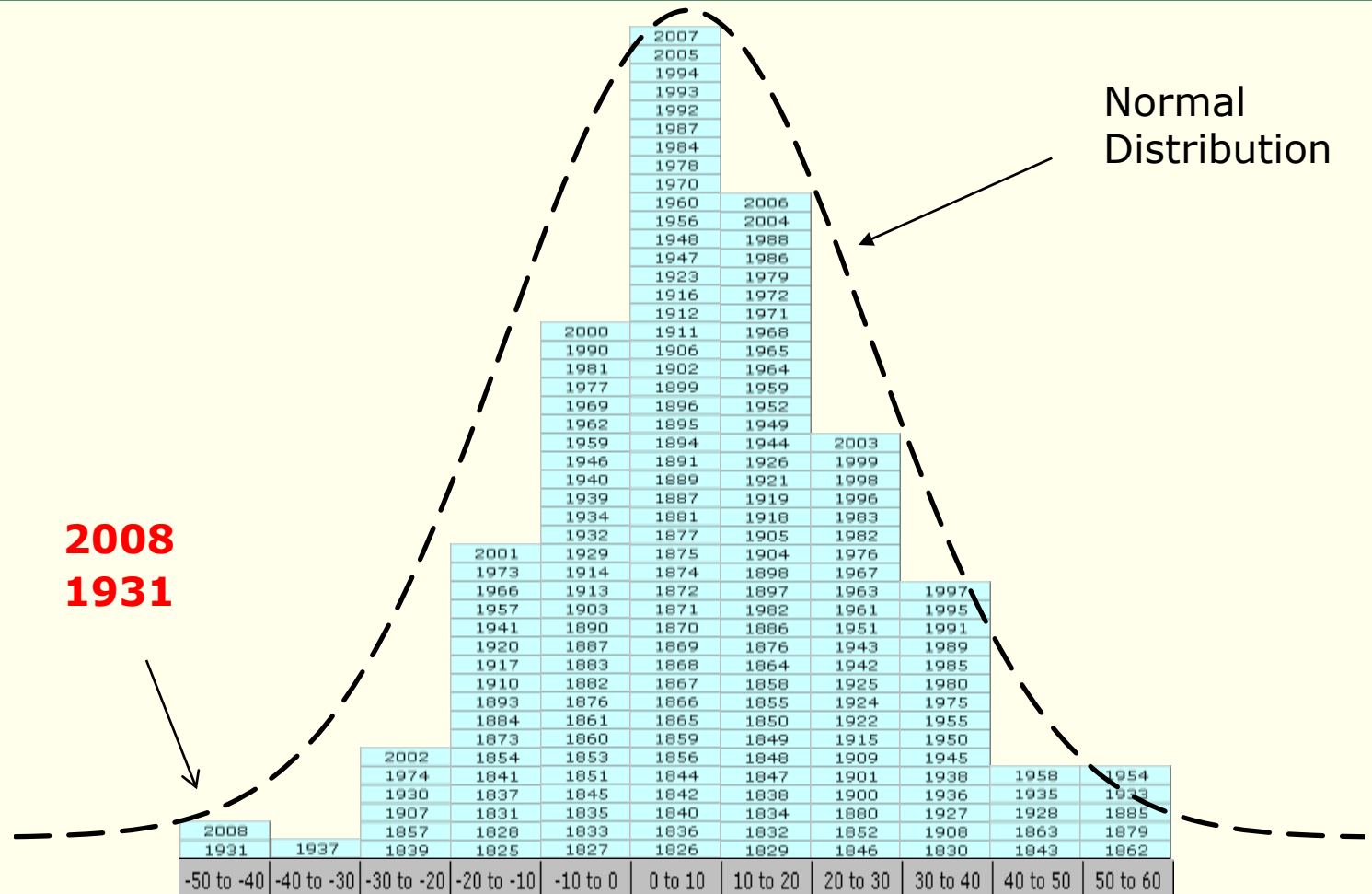
# Summary

- We are coming out of the “Great Recession”
  - The recovery is gaining traction
  - Private spending – both consumer and business – is firming
  - Job growth has finally returned
  - Probability of a double-dip is receding
- Headwinds
  - Financial markets – volatility; credit to small business
  - Construction
  - Greek sovereign debt crisis’ impact on WA will be minimal, if contagion is avoided
- WA outperformance still on track
  - Exports
  - Stable aerospace and software publishing



# Equity returns in 2008 were a tail event

## U.S. Stock Market Total Returns 1825 - 2008



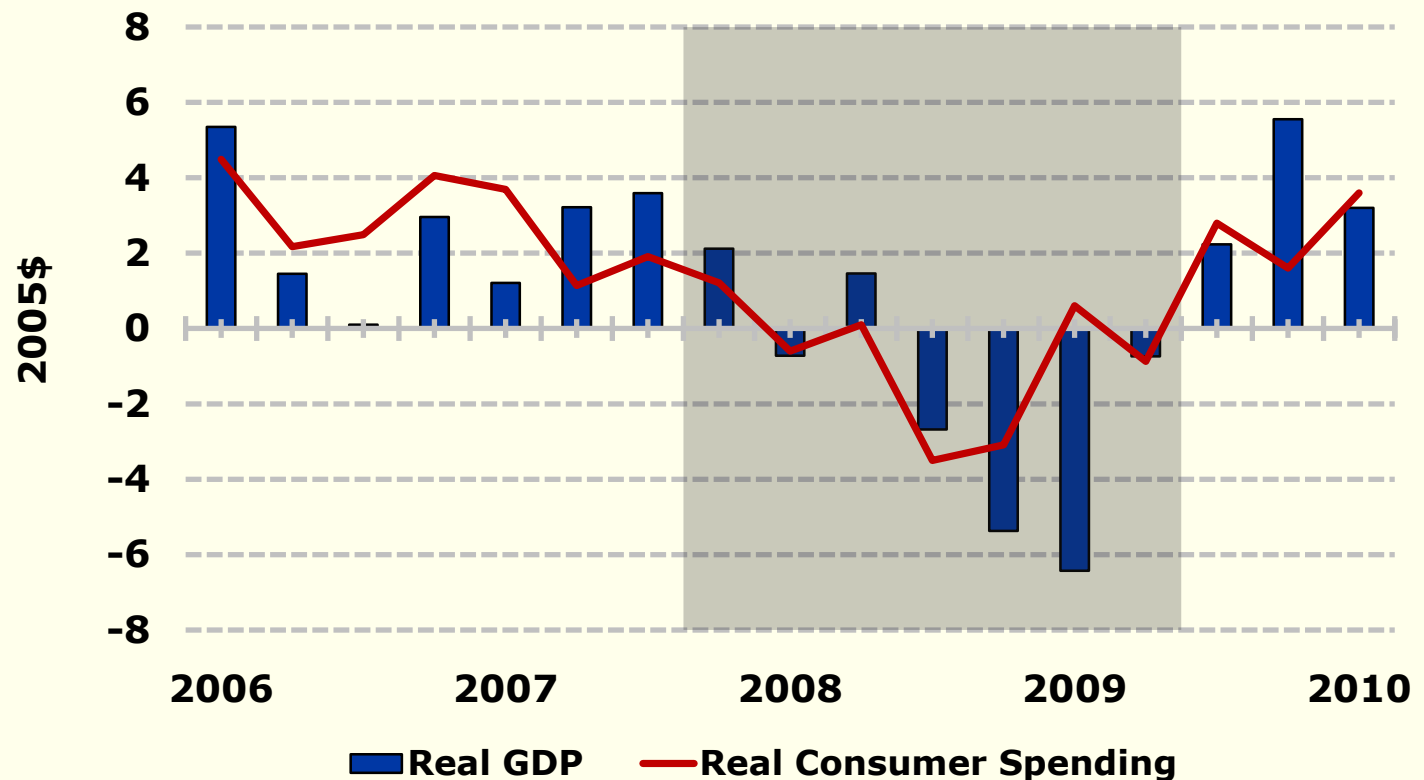
Source: AXA

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# We have had 3 consecutive quarters of GDP and consumer spending growth

Percent growth, SAAR



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Source: BEA, data through 2010 Q1



# We have had job growth in 5 of the last 6 months



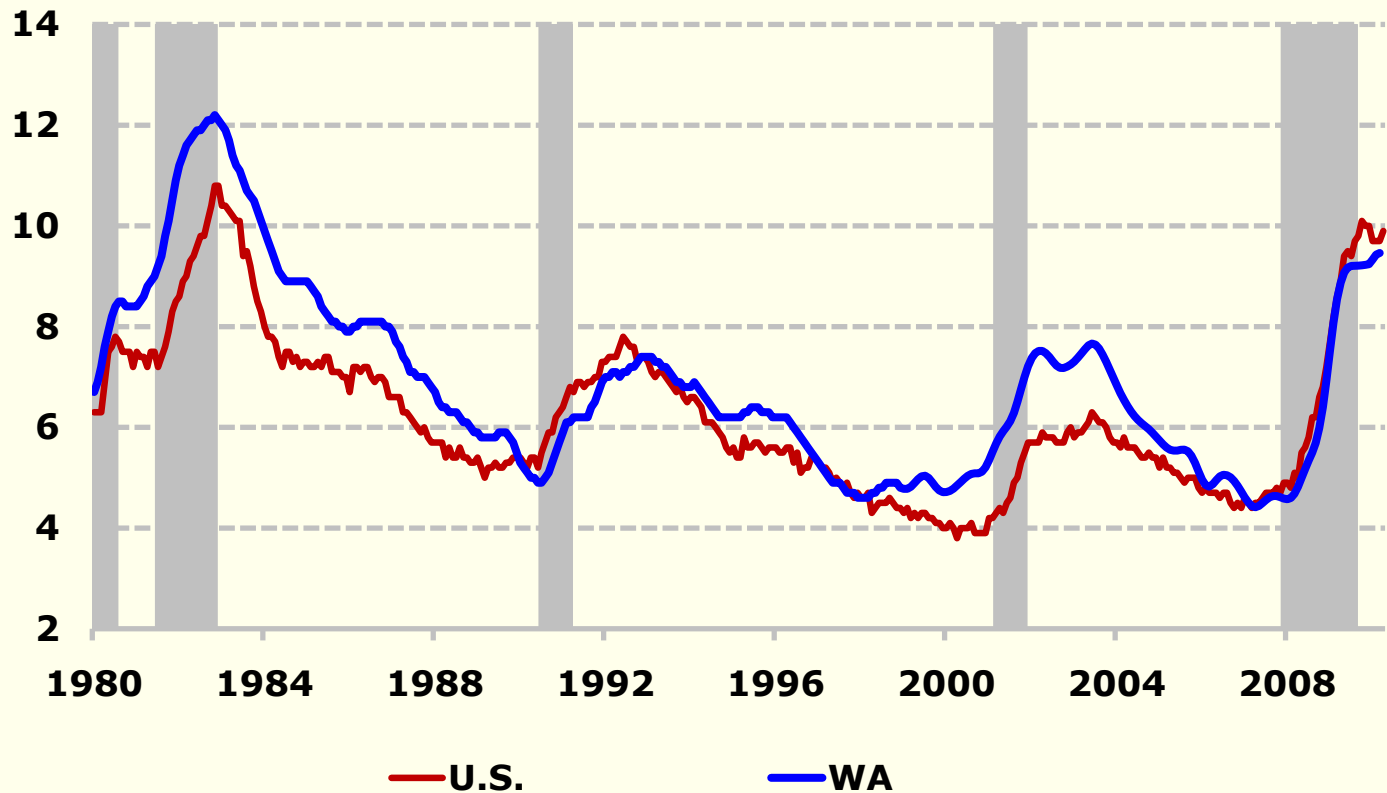
Source: BLS; data through April 2010



# Unemployment is still high

It is normal for this rate to continue to rise even after the economy is in recovery

**Unemployment Rate, Percent, SA**

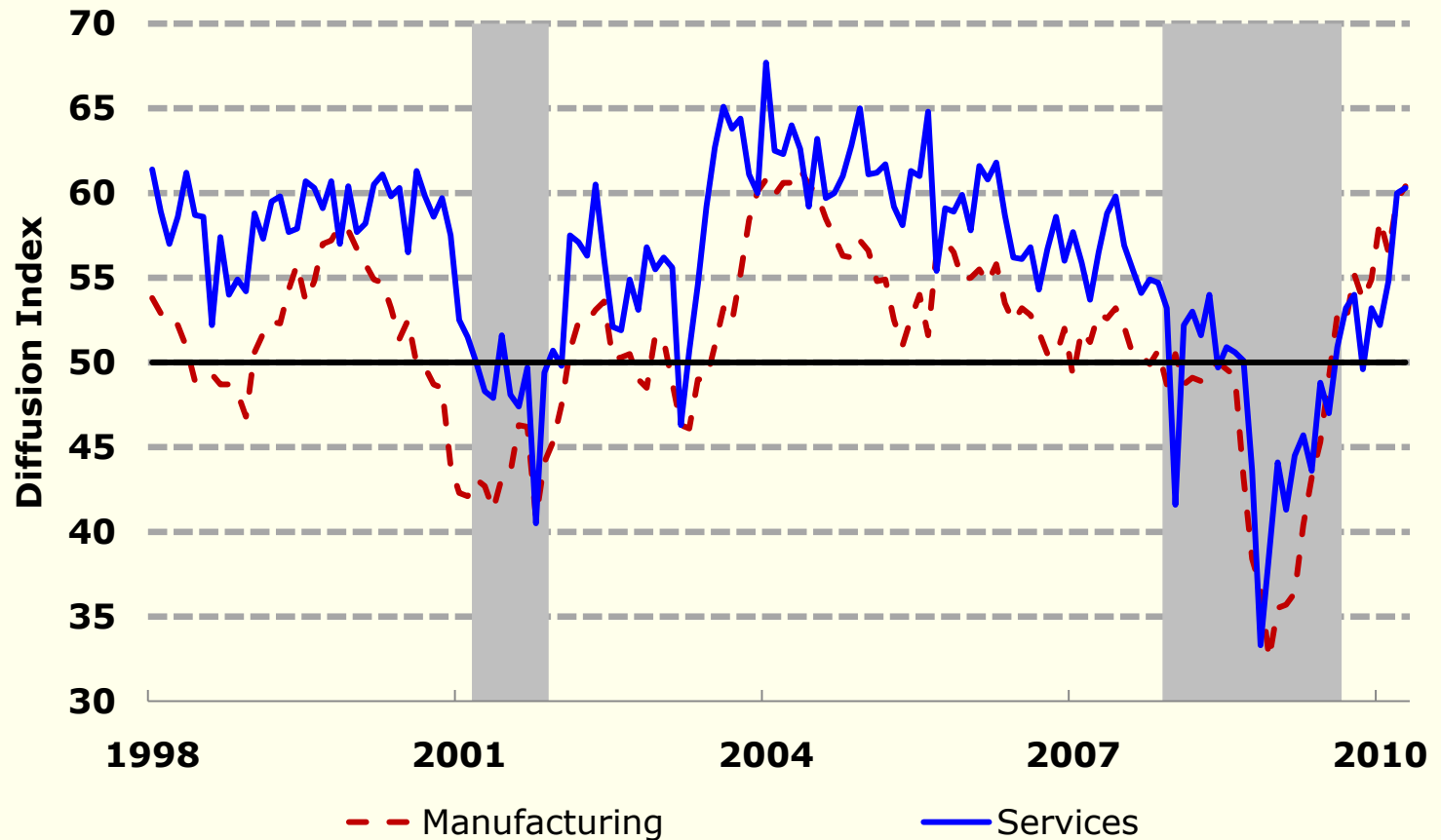


Source: WA ESD, BLS; data through March 2010



# ISM indices for both services and manufacturing indicate growth

An index greater than 50, implies growth



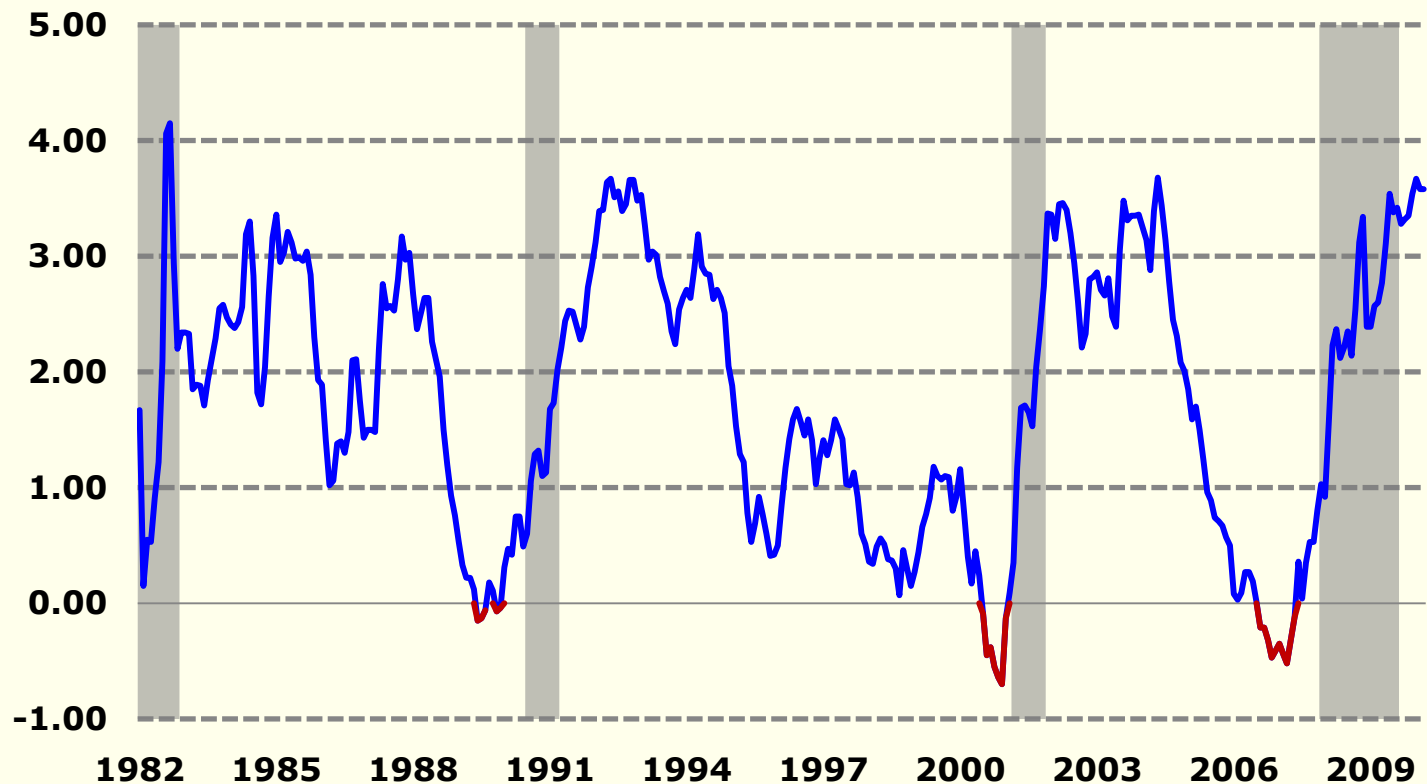
Source: Institute of Supply Management; data through April 2010



# Increasing yield curve spread points to growth

An inverted yield curve typically precedes a recession while a steepening yield curve signifies a recovery

## Yield Curve Spread 10-Year minus 3-Month U.S. Treasuries



Source: Federal Reserve Board, ERFC; data through March 2010



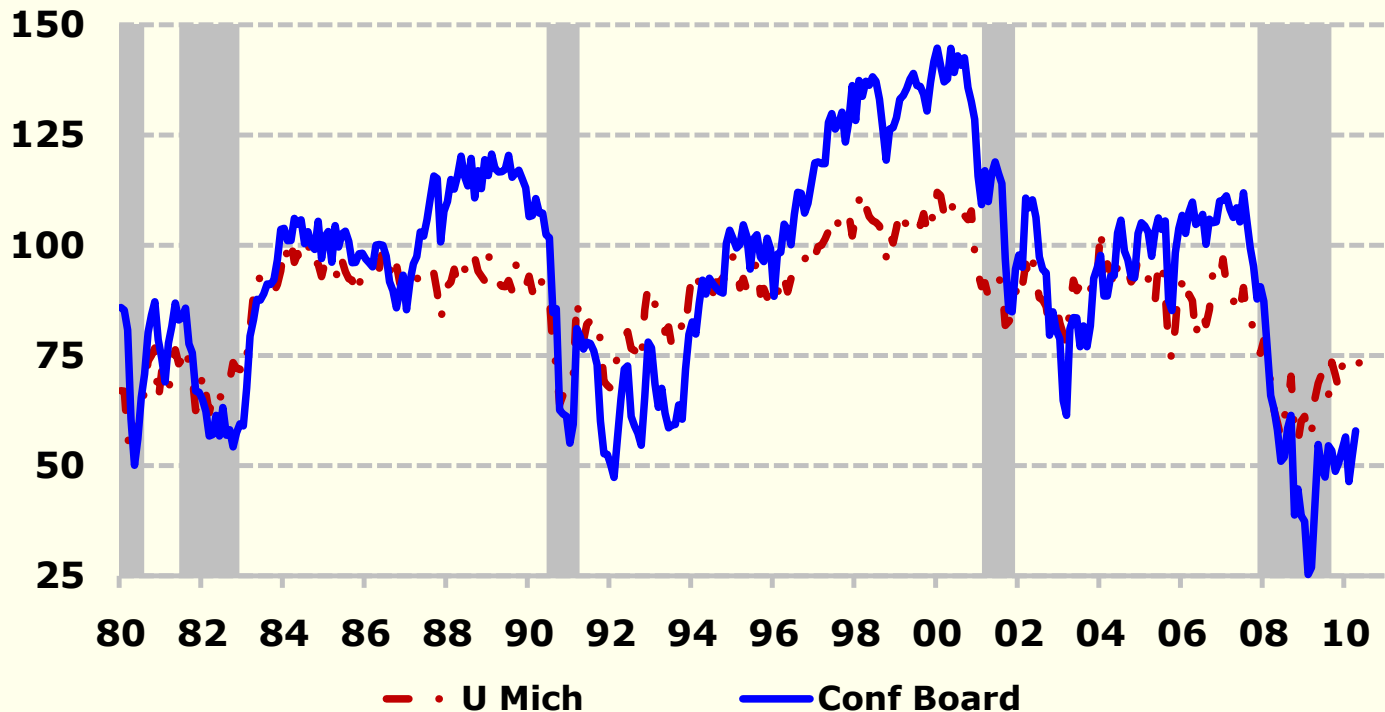


# Consumer confidence is improving, but slowly

**Index**

**Mich: 1966Q1 = 100, SA**

**Conf Board: 1985 = 100, SA**



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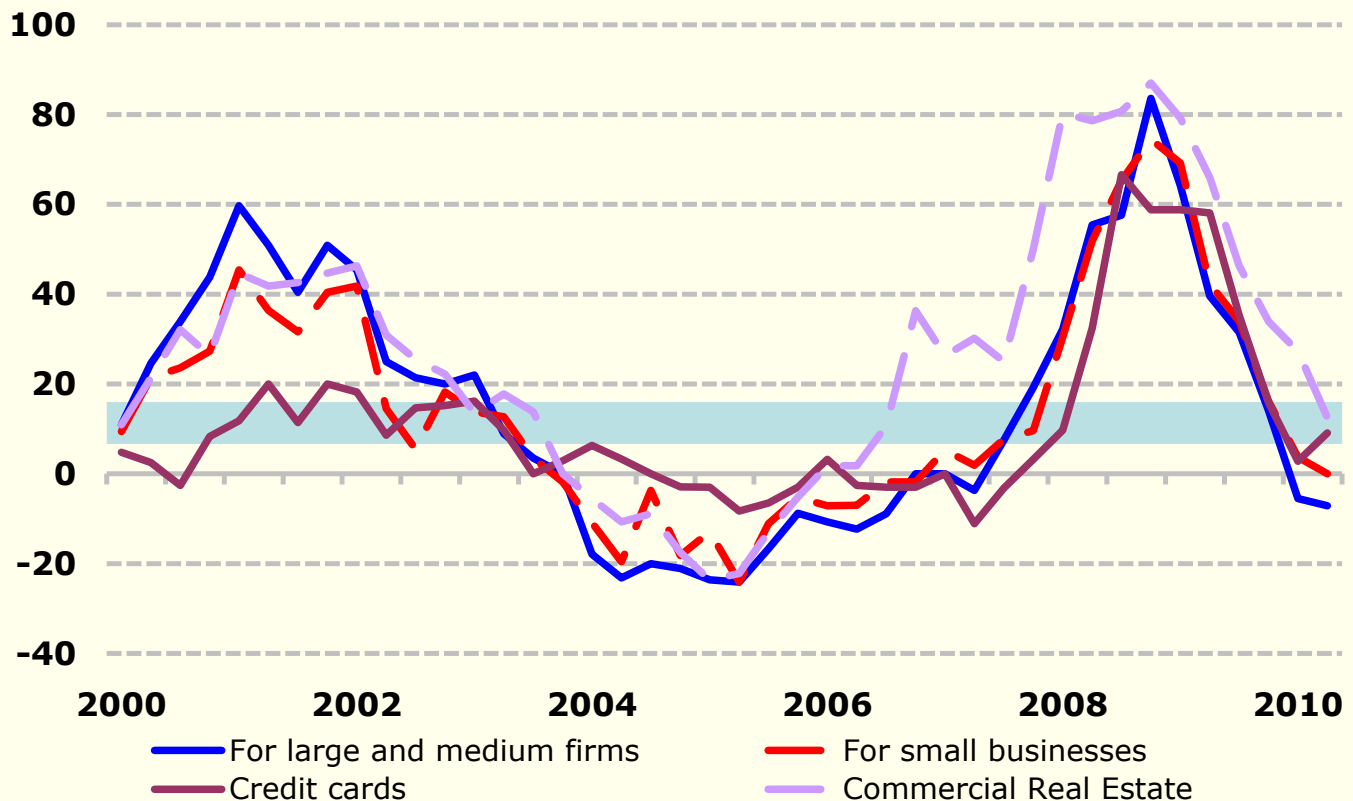
Source: University of Michigan; Conference Board, data through May 2010, preliminary



# Large bank lending appears to be easing

Survey includes 60 large domestic banks and 24 U.S. branches of foreign banks

## Net Tightening minus Easing Percent

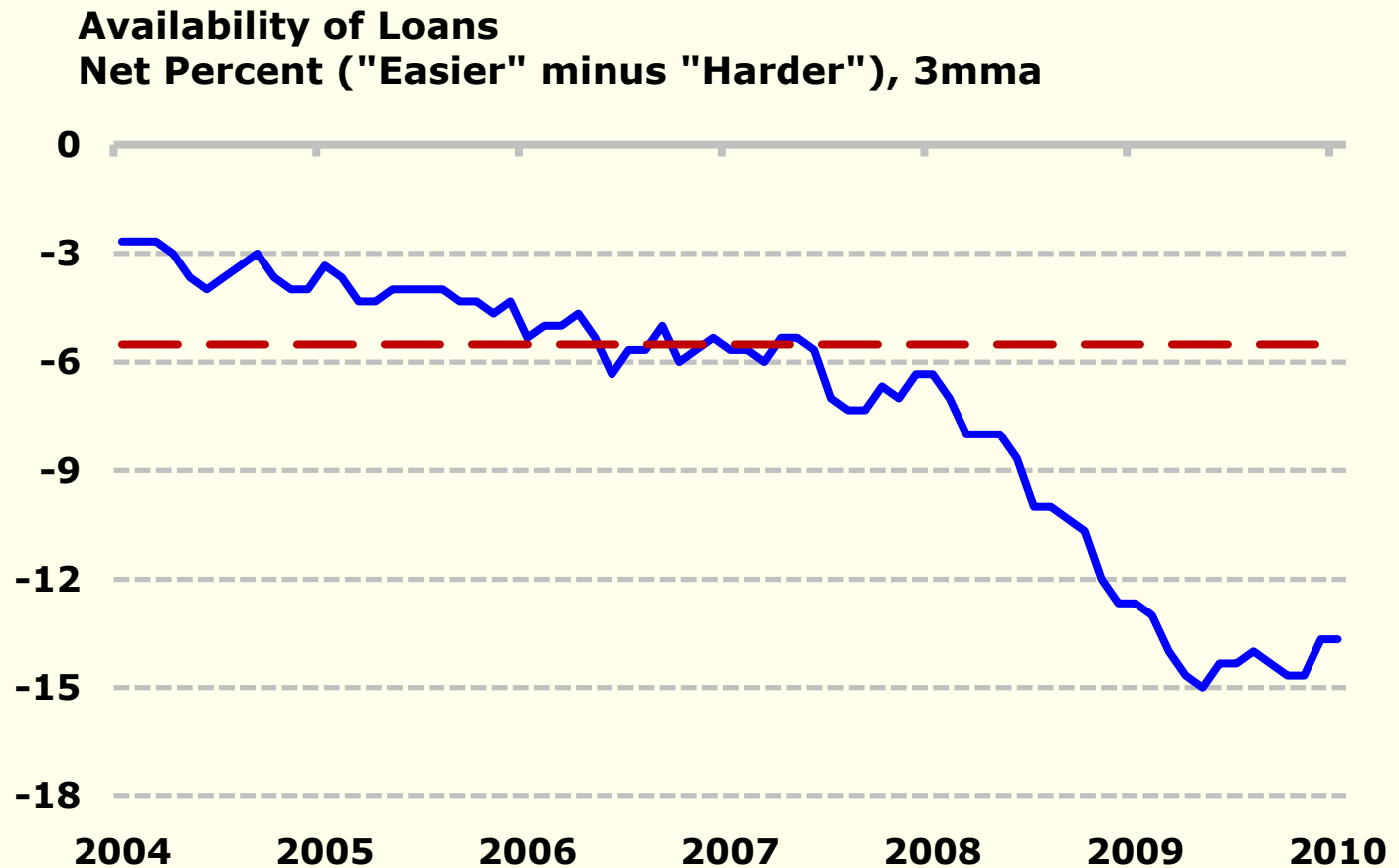


Source: Federal Reserve Board, Senior Loan Officers Quarterly Survey; data through April 2010 survey

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# But credit conditions remain tight for small business



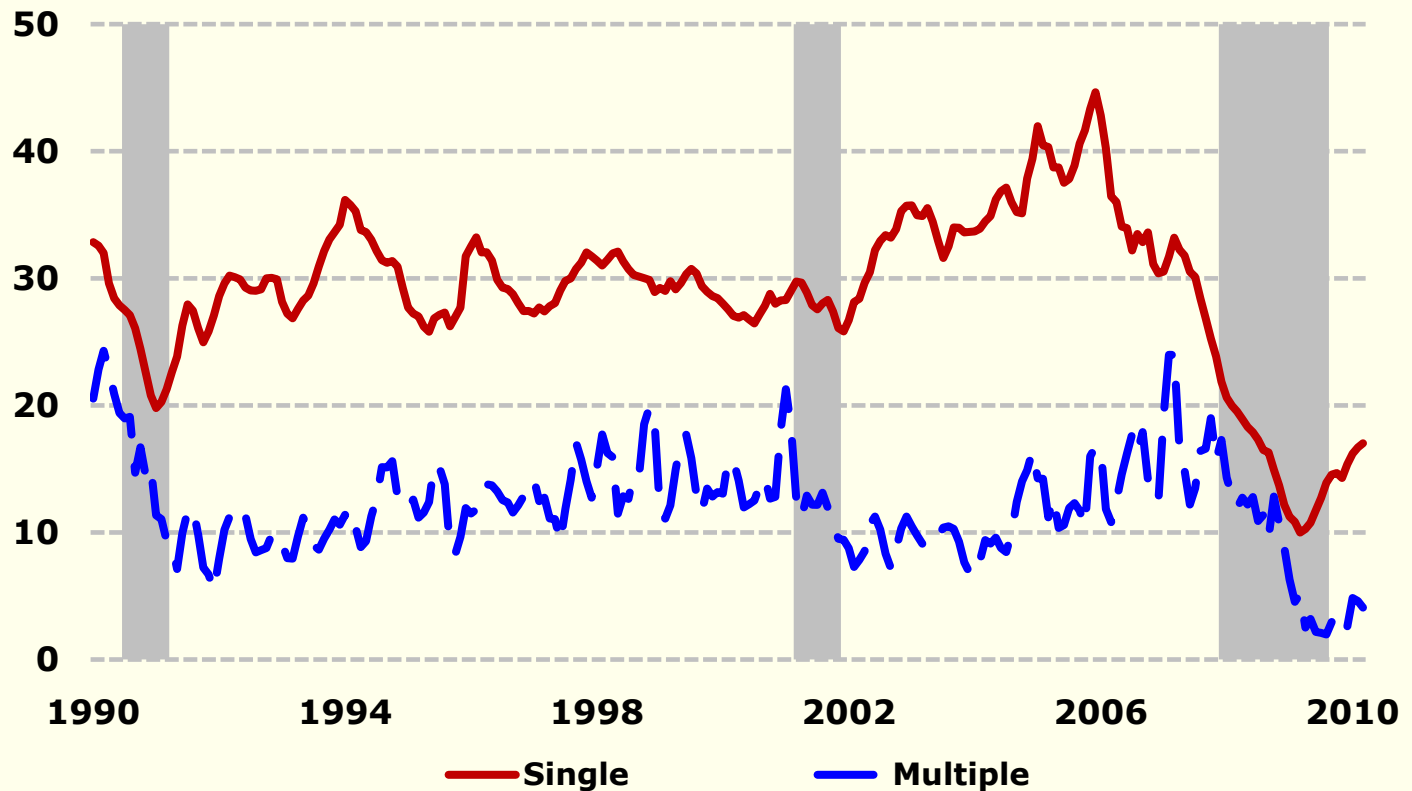
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Source: National Federation of Independent Business; data through March 2010



# WA single family housing is improving, but mostly because of the first time homebuyer tax credit

Thousands, SA, 3MMA

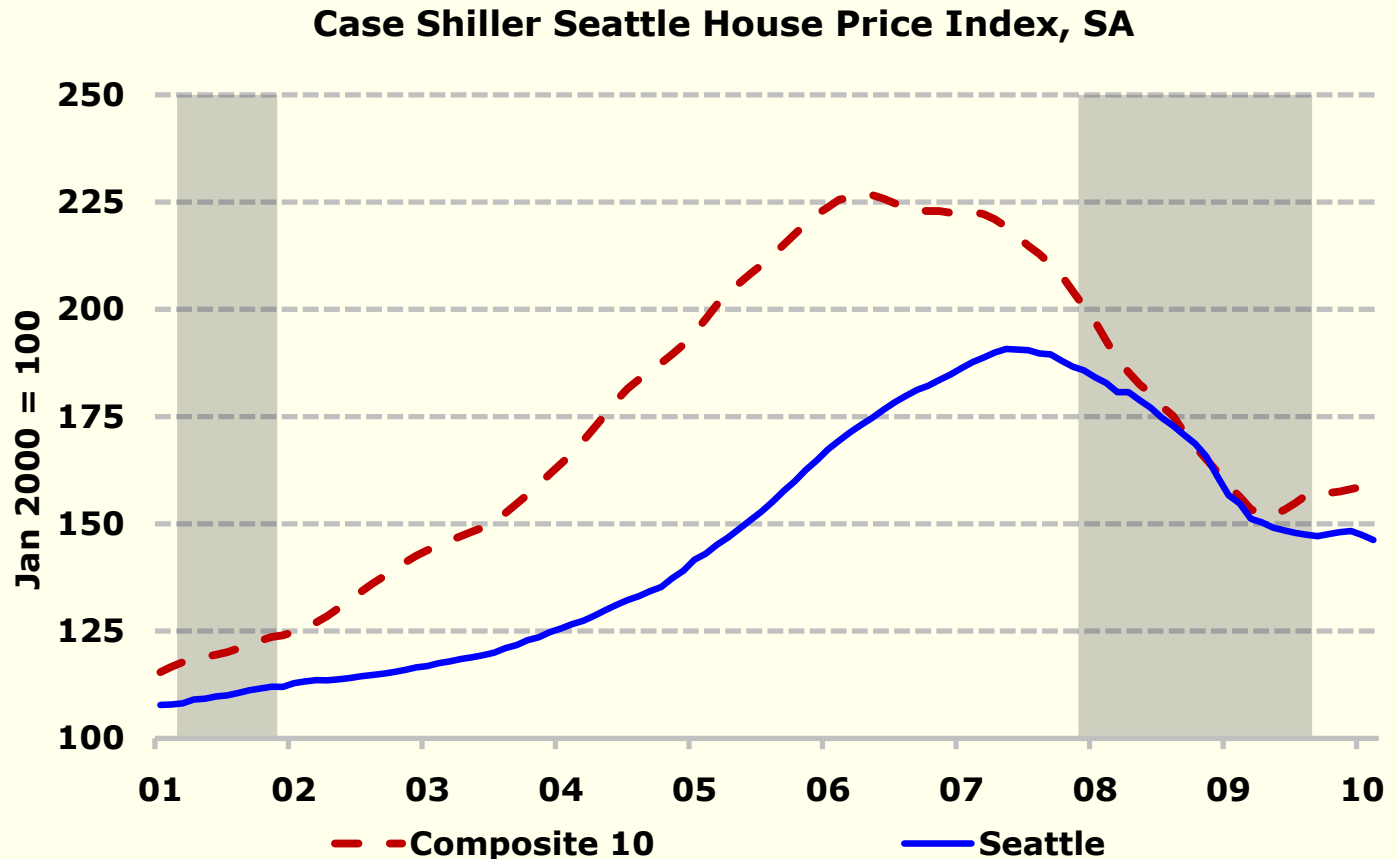


Source: U.S. Census Bureau; data through March 2010



# Home prices appear to be stabilizing

## Seattle Home Prices

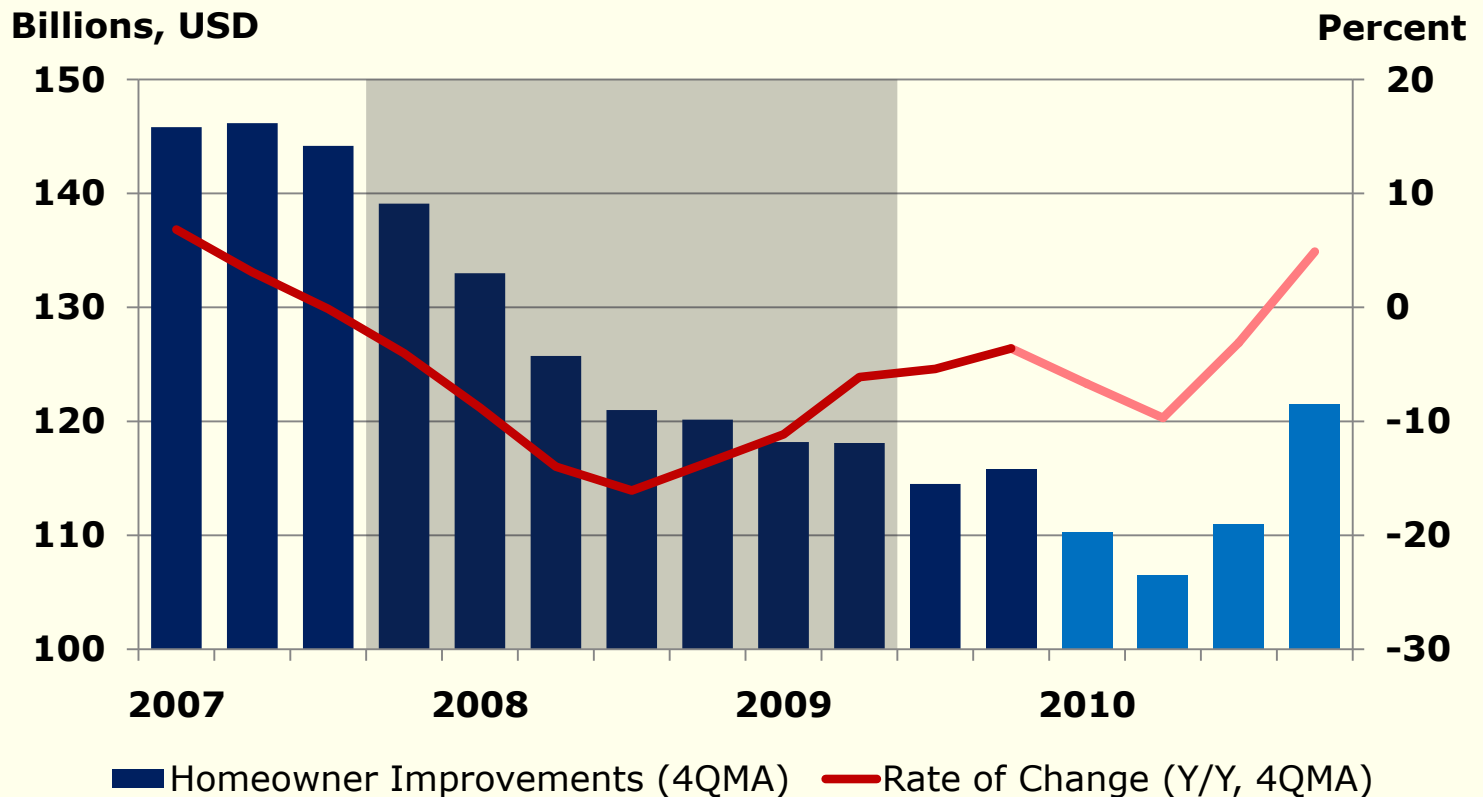


Source: S&P/Case-Shiller; data through February 2010



# Indicator suggests remodeling improvement in 2010

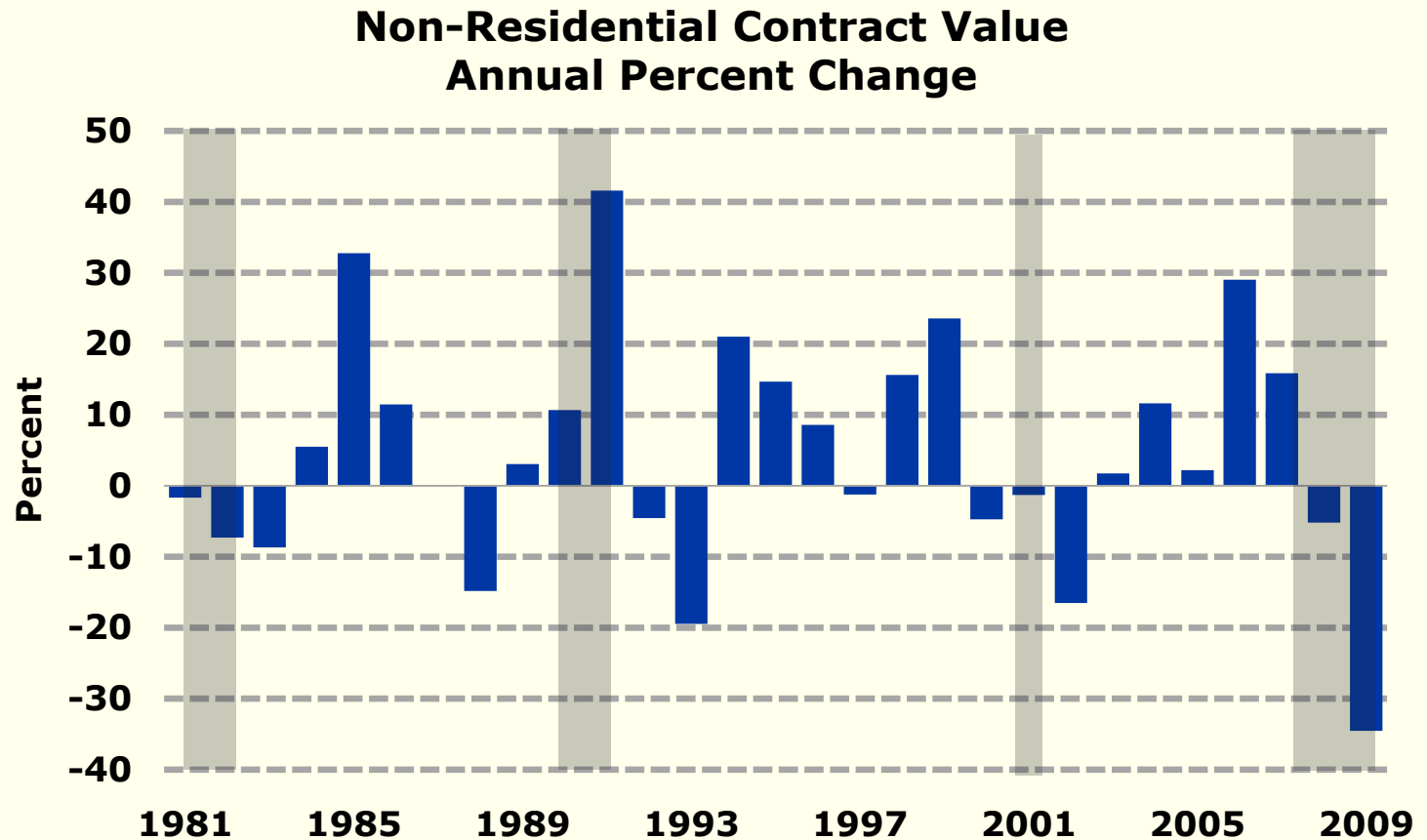
## The Leading Indicator of Remodeling Activity (LIRA)



Source: Joint Center for Housing Studies of Harvard University, actual data through 2009 Q4



# This is the worst downturn in non-residential construction in 30 years

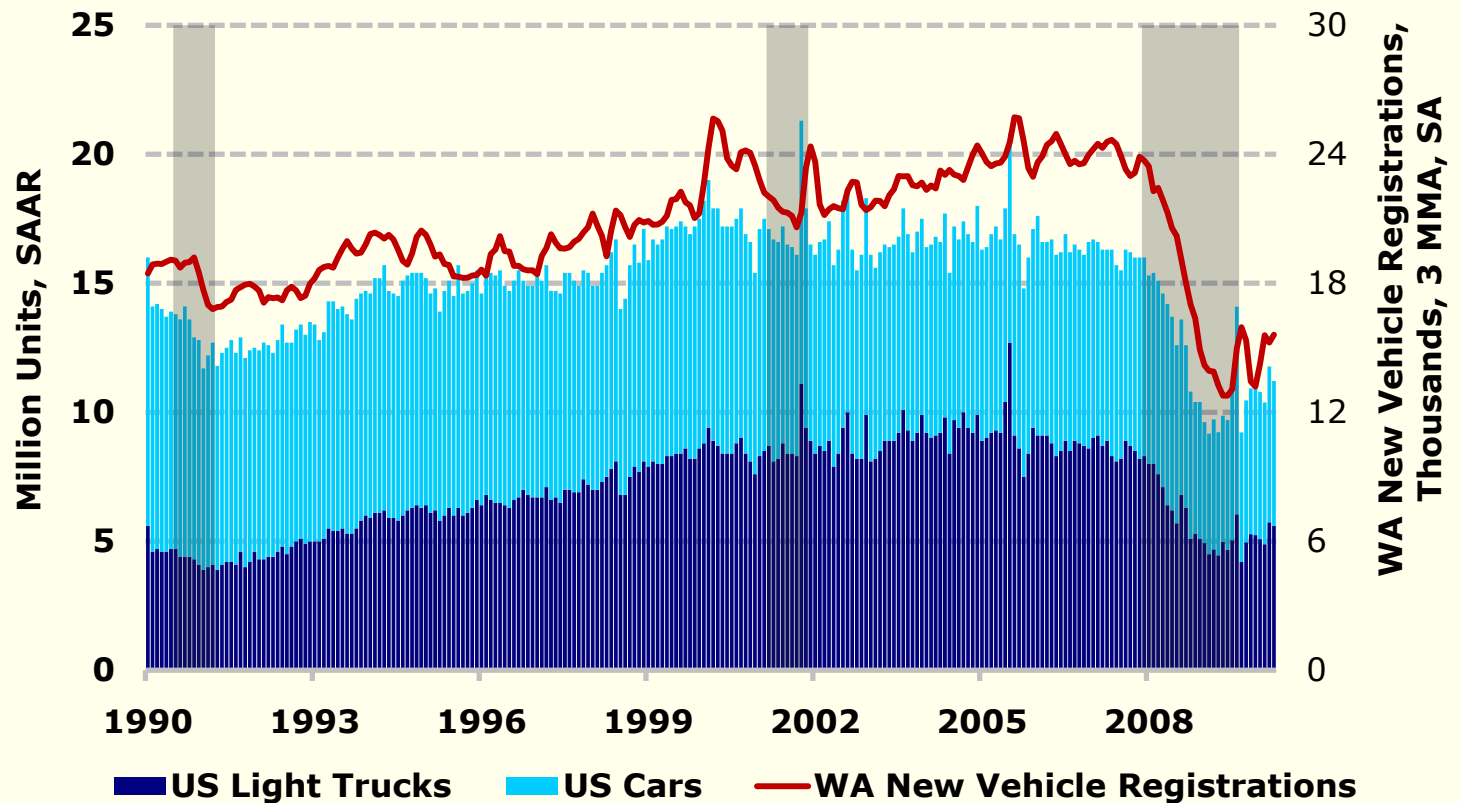


Source: McGraw-Hill Construction, data through December, 2009



# Automotive sales are improving

National car sales were 2.1 million units (ann.) higher in March 2010 than in March 2009



Source: Autodata Corporation, WA DOL; data through April 2010

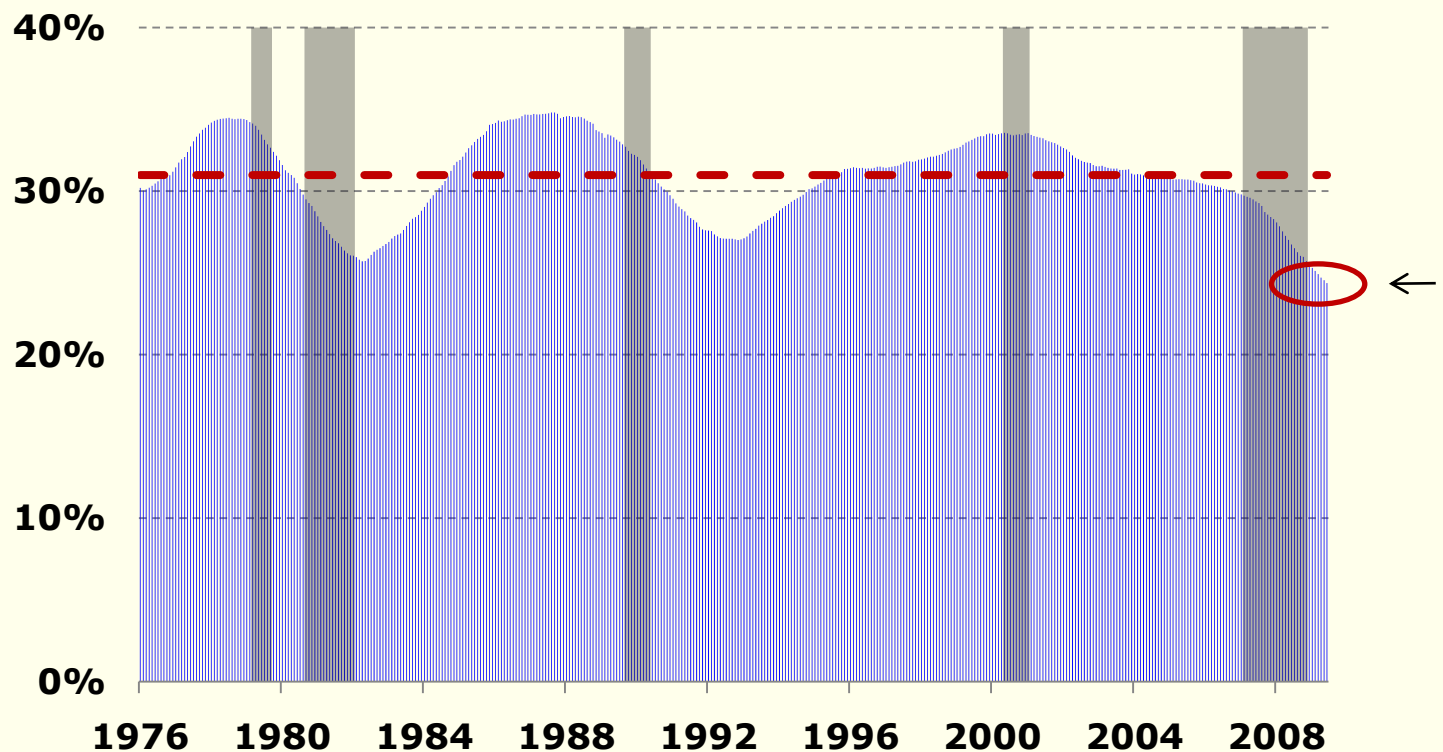




# Relative age of the car fleet indicates imminent turnaround in car sales

The percent of "old" cars on the road is at a historic high

**U.S. LMV Sales: Ratio of 36/120 Months**



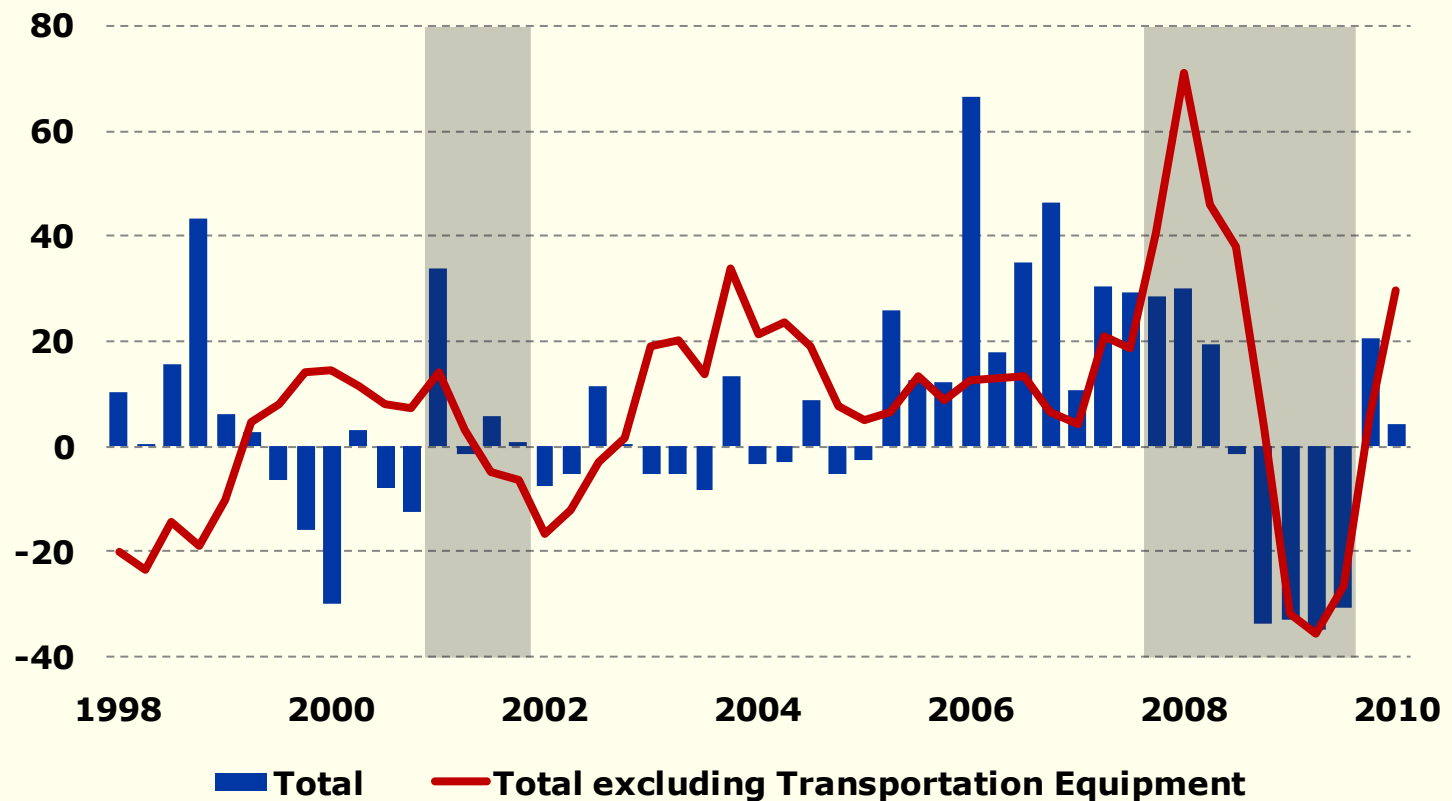
Source: Autodata Corporation, ERFC; data through March 2010



# Exports will help the state recover faster than the nation

Exports excluding transport equipment were up 30% in Q1

**Exports**  
**Percent Change, year ago**



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Source: Wiser Trade Data; through 2010 Q1

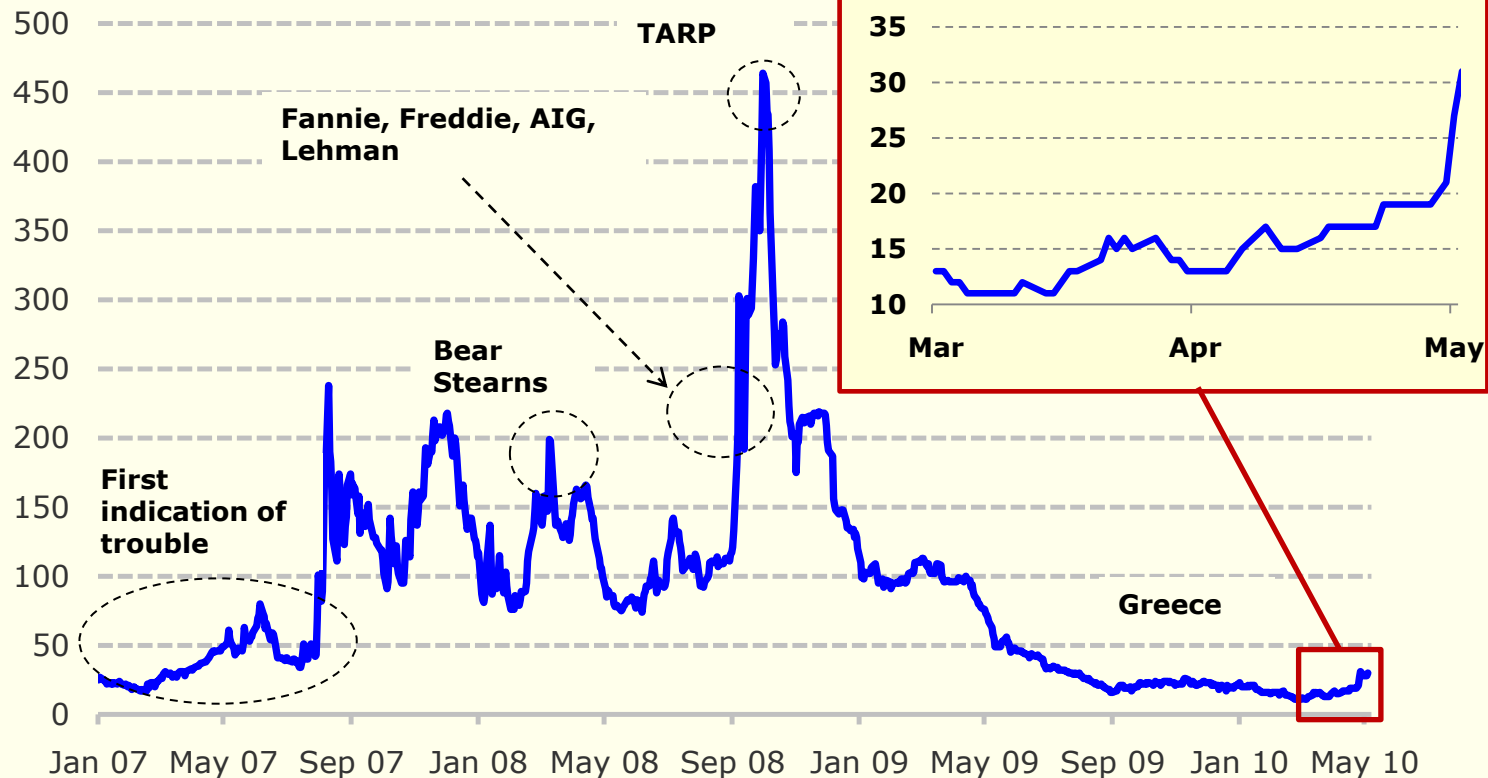
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# Inter-bank lending has tightened, but only marginally

The spread indicates the premium banks have to pay to borrow from each other

**USD 3m LIBOR - 3m US T-bill Spread  
Basis Points**



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Source: British Bankers Association, US Federal Reserve Bank, ERFC; data through May 14, 2010



# The S&P 500 VIX volatility index has spiked recently

This index is a proxy for fear and uncertainty in markets



Source: Yahoo Finance; data through May 14, 2010

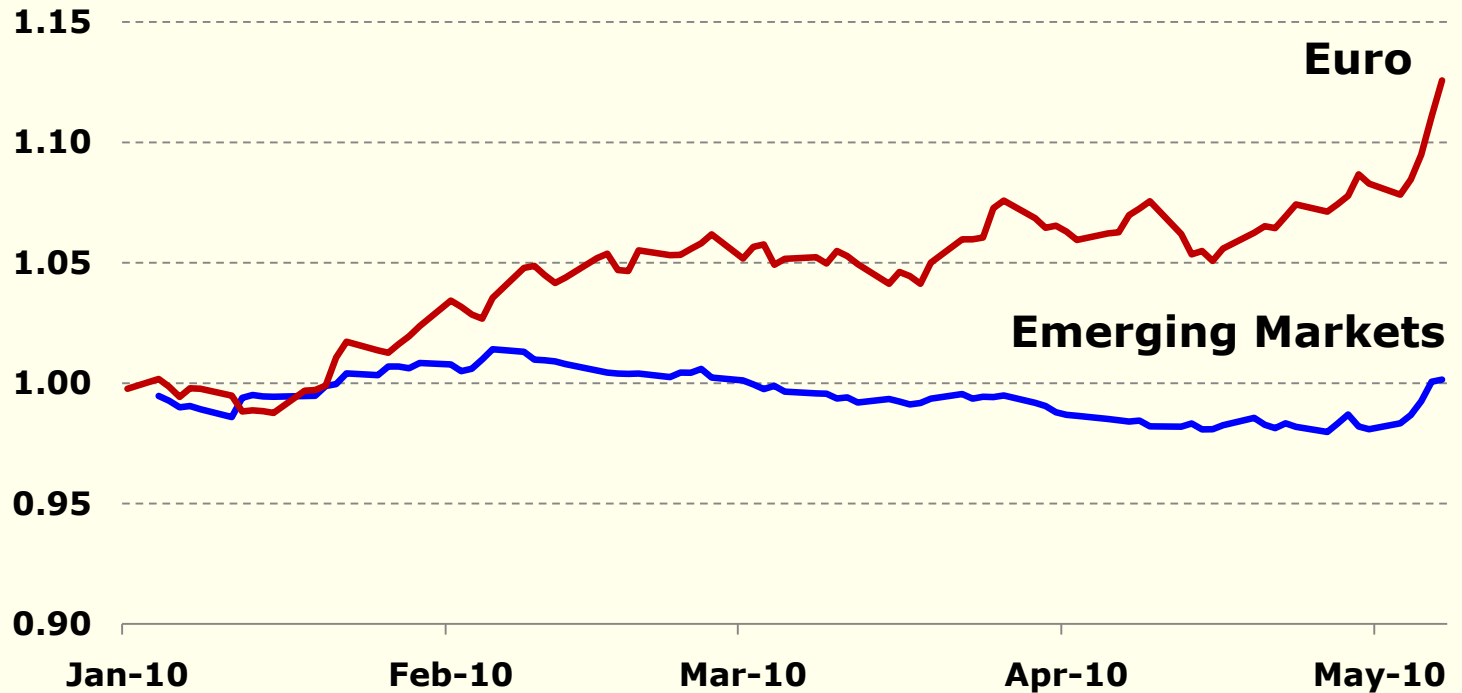
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# The USD has appreciated against the EUR this year, but not against emerging market currencies

## U.S. Dollar versus select currencies

Index, Dec. 31, 2009 = 1.0



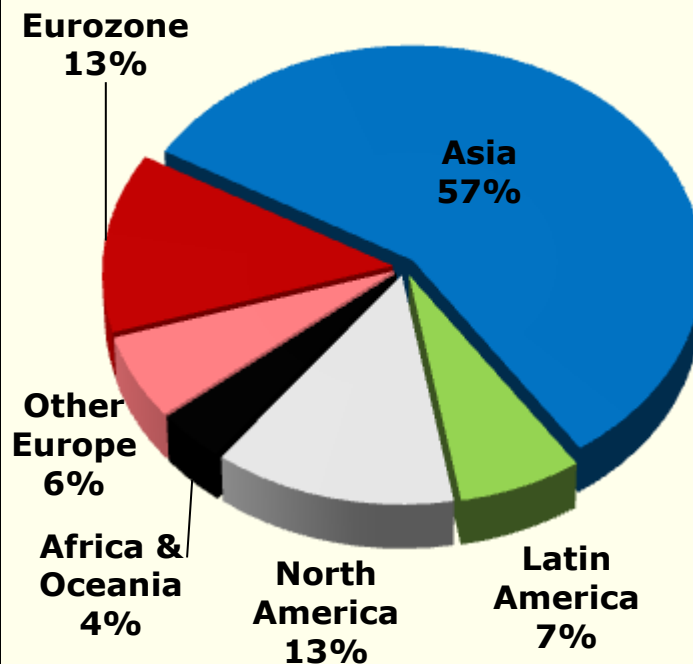
Source: US Federal Reserve Bank, ERFC; data through May 7, 2010



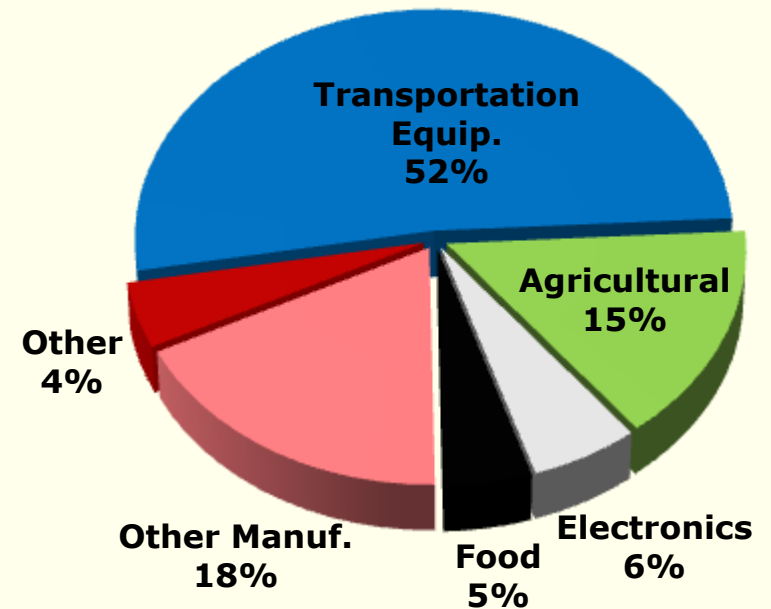
# Non-commodity exports are less likely to be affected by a stronger USD

2009

## By Region



## By Industry



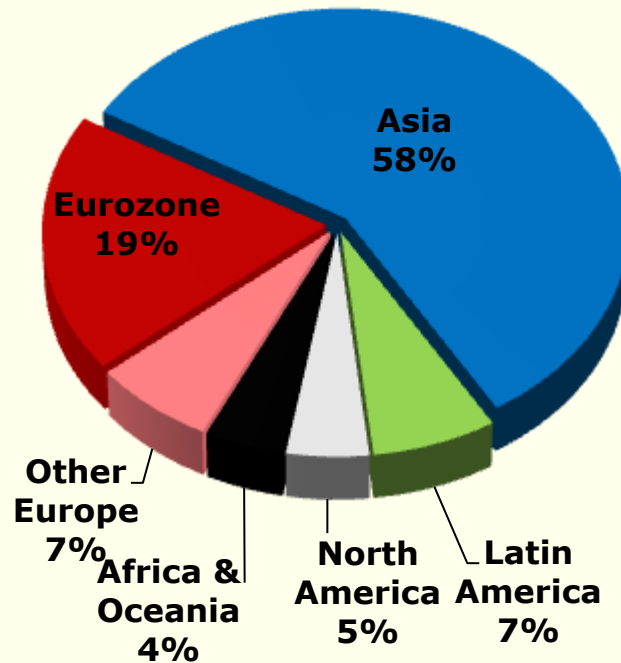
Source: Wiser Trade Data



The vast majority of Washington agriculture exports go to Asia ... so not affected by a weaker EUR v USD

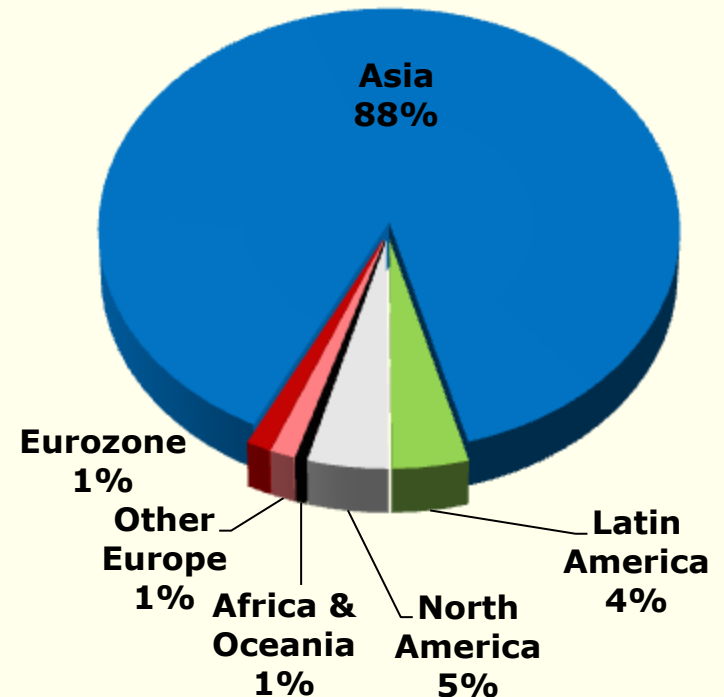
2009

## Transportation Equipment



Source: Wisier Trade Data

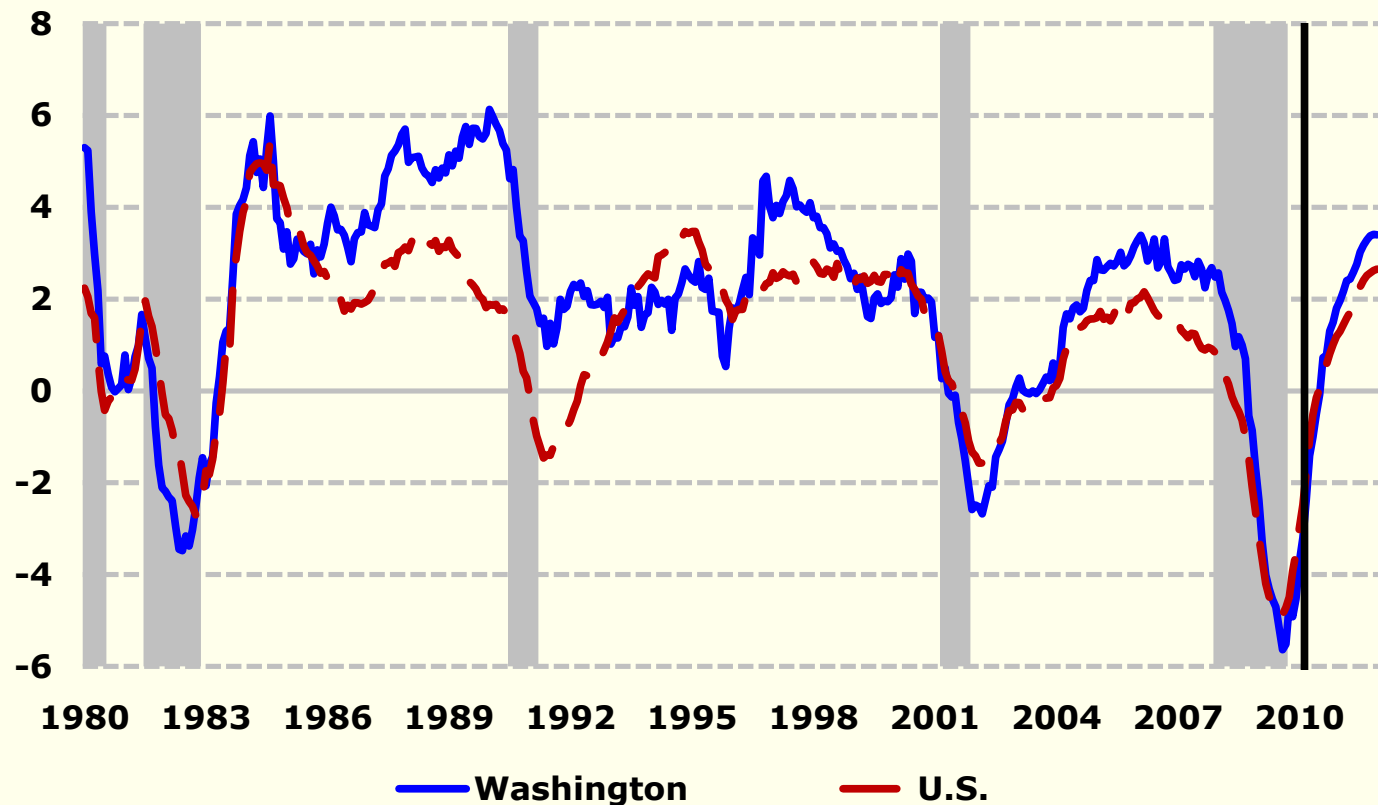
## Agriculture





# WA employment lagged the nation in the downturn and will recover a little stronger than the nation

Percent change, year ago



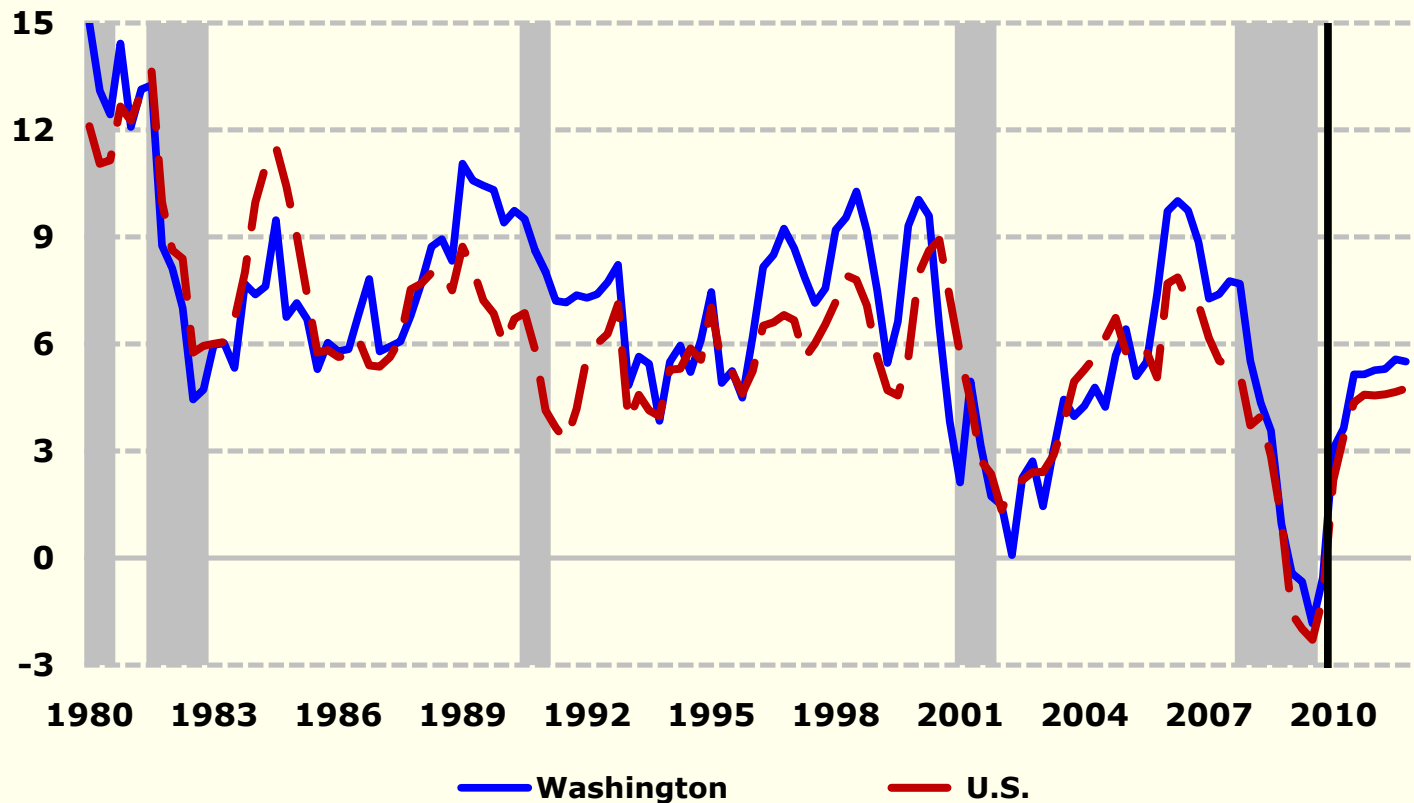
Source: ERFC February 2010 forecast; actual through April 2010





# The recovery in WA personal income growth is expected to be better than the nation's

Percent change, year ago

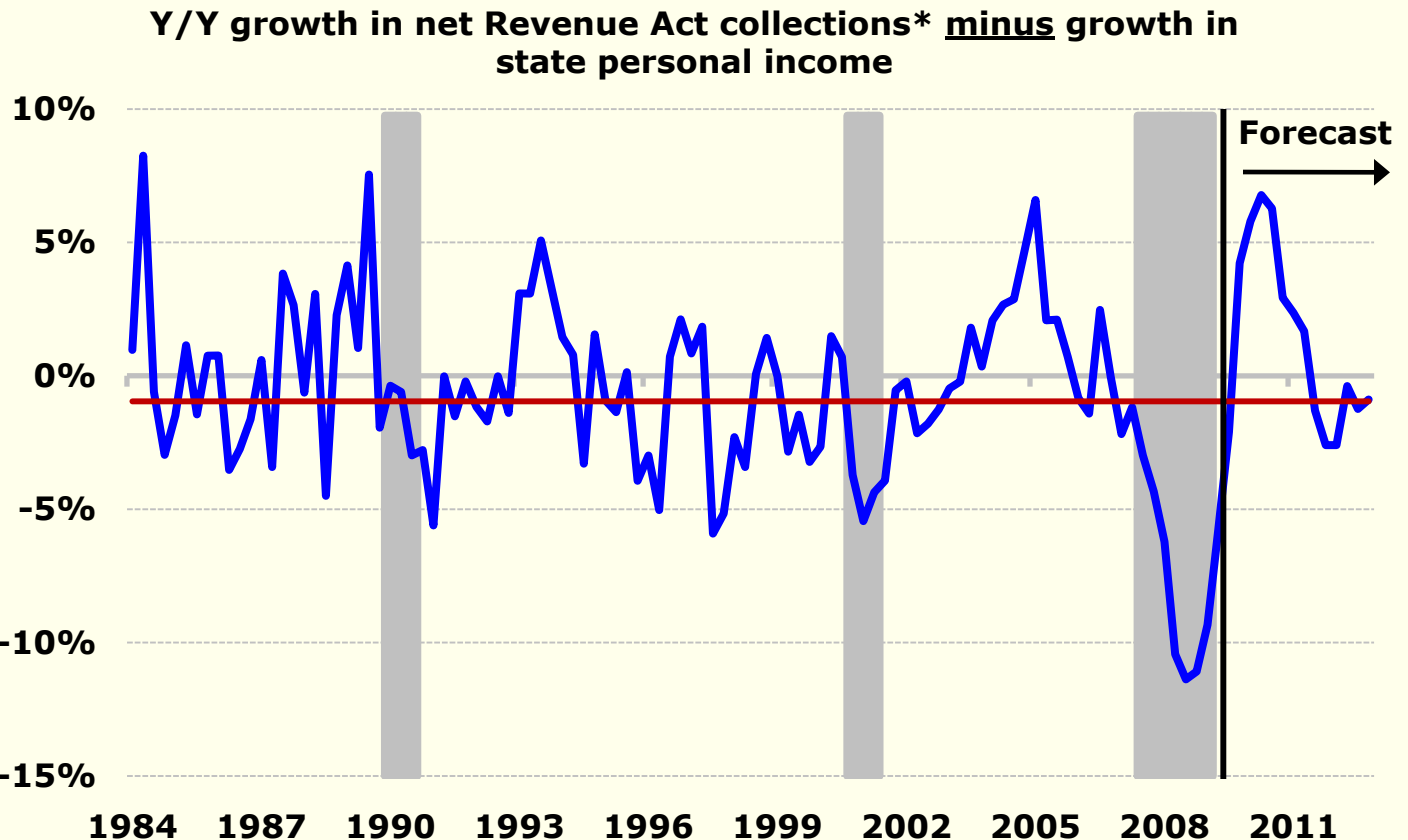


Source: ERFC February 2010 forecast; actual data through 2009Q4 WA, 2010Q1 U.S.



# Revenue growth relative to income is starting to turn around

The difference between the growth rate of Revenue Act collections and state personal income began to shrink in the second quarter of 2009.



\* Adjusted for new legislation, current definition of Revenue Act  
Source: DOR and ERFC; data through 2009Q4

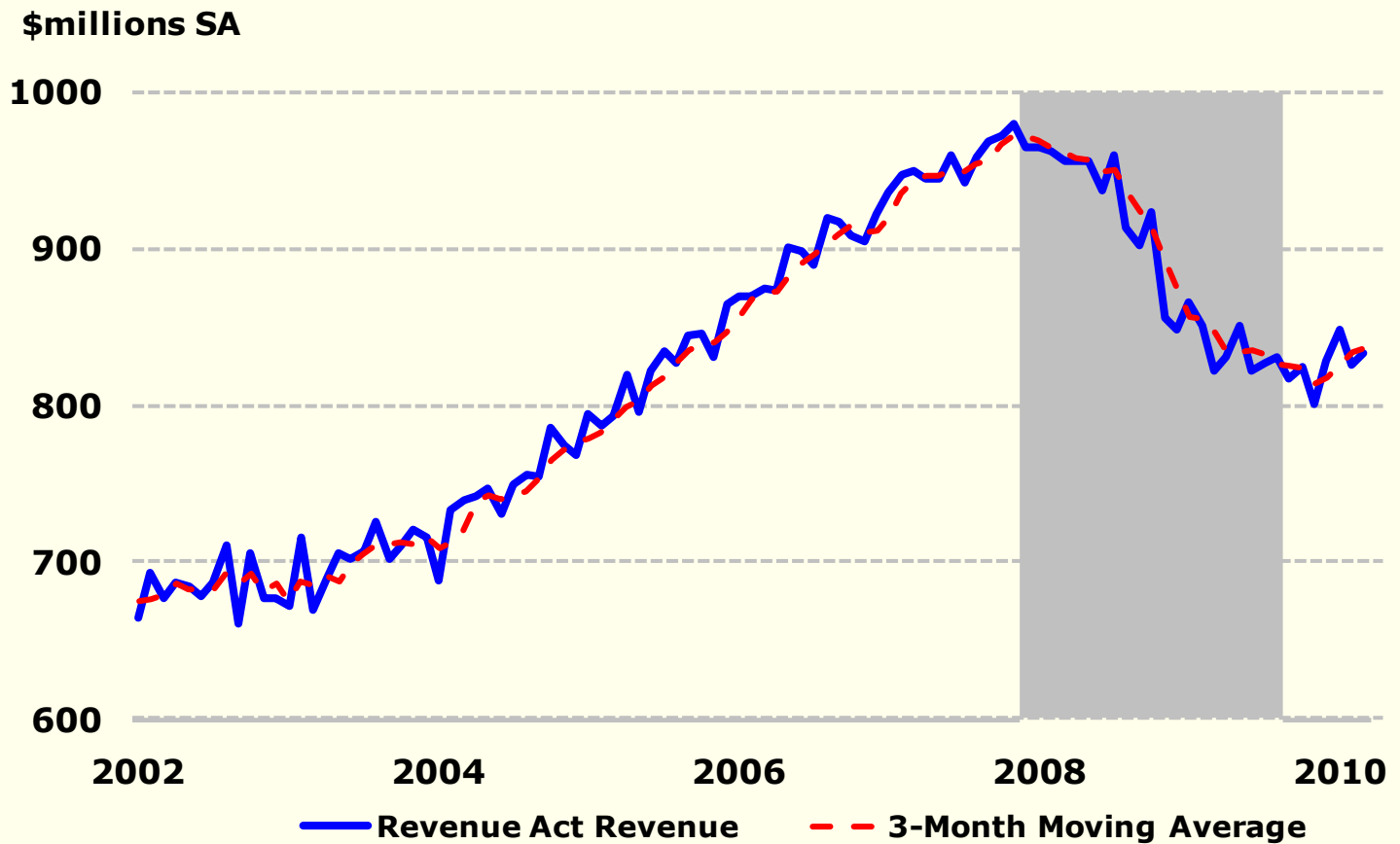
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# Revenue Act collections are now up year-over-year

Adjusted receipts were up 2.3% year-over-year in the April 11-May 10 collection period.



\* Adjusted for new legislation and large one-time transactions, current definition of Revenue Act

Source: DOR and ERFC; monthly data through March 2010 Activity

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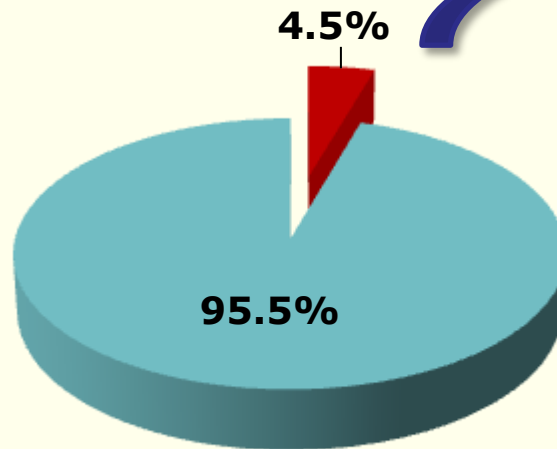


# Construction contributes more to the GF-S than to State Product

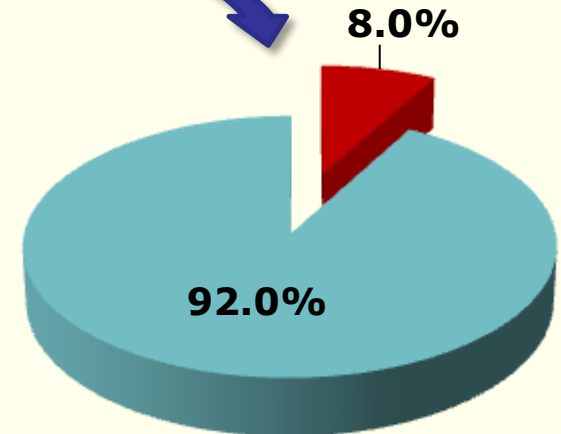
**1997 – 2004  
Average**

**Excludes  
bubble  
years**

**Gross State Product**



**General Fund Revenue**



■ **Construction**

■ **All Other**

Source: Bureau of Economic Analysis, ERFC

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# Forecast changes: General Fund State, 2009-2011 Biennium

**November  
Forecast:**  
\$28,843  
million

| USD<br>millions       | February '10 Forecast            |                                     |                            |                 |                          |
|-----------------------|----------------------------------|-------------------------------------|----------------------------|-----------------|--------------------------|
|                       | <u>Collection<br/>Experience</u> | <u>Non-<br/>economic<br/>Change</u> | <u>Forecast<br/>Change</u> | <u>Forecast</u> | <u>Total<br/>Change*</u> |
| Dept. of<br>Revenue   | \$61                             | (\$150)                             | (\$52)                     | \$27,245        | (\$141)                  |
| All other<br>agencies | \$1                              | \$0                                 | \$22                       | \$1,479         | \$23                     |
| <b>Total GF-S</b>     | <b>\$61</b>                      | <b>(\$150)</b>                      | <b>(\$30)</b>              | <b>\$28,725</b> | <b>(\$118)</b>           |

\* Detail may not add to total due to rounding

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# Initial Forecast: General Fund State, 2011-2013 Biennium

**USD  
millions**  
USD Millions

|                    | <b>Forecast</b> |
|--------------------|-----------------|
| Dept. of Revenue   | \$30,658        |
| All other agencies | \$1,566         |
| <b>Total GF-S</b>  | <b>\$32,224</b> |

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\* Detail may not add to total due to rounding

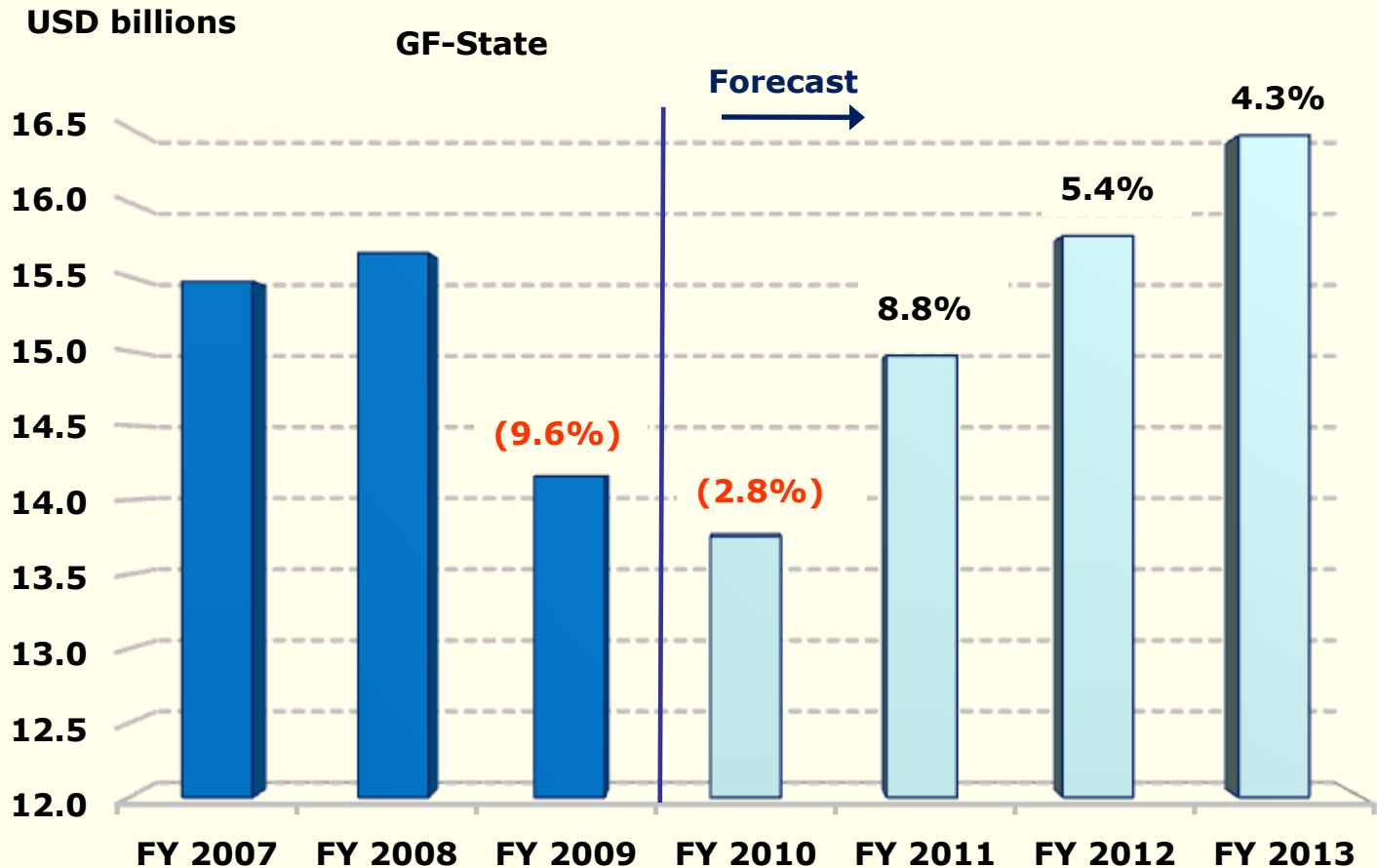


# General Fund\* forecast by fiscal year

\* General Fund & Related Funds for FY 07, 08, and 09

General Fund – new definition, for FY 10-13

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Source: ERFC forecast, February 2010



# Conclusion

## Pluses

- Recovery in progress
- Job growth has returned
- Car sales are improving
- Large banks able to extend credit

## Minuses

- Credit still tight for small business
- Weak consumer confidence
- Slow recovery in construction
- Greece

- Revenues have come in close to our November forecast, and are bumping along the bottom
- We expect 12.2% revenue growth in the 11-13 biennium compared to the current one





# Questions



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